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STATE OF HAWAII
PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
465 S. KING STREET, #103
HONOLULU, HAWAII 96813

September 14, 2005

Via e-mail and U.S. Mail

To distribution list

Re: Docket No. 04-0113
HECO 2005 Test Year Rate Case

Dear Parties:

Attached please find a list of questions that the Commission would like the Parties' witnesses to address at the evidentiary hearing scheduled for Friday, September 16, 2005.¹ While we suggested witnesses who may sponsor testimony in response to these questions, we leave to the discretion of the Parties the final determination as to which witness would be most appropriate to respond to a particular question. Further, we welcome the Parties' suggestions as to a proposed schedule for witnesses, based upon your understanding of your witnesses' availability.

Please contact Catherine P. Awakuni at 586-2017 with any questions or concerns that you may have.

Sincerely,

A handwritten signature in cursive script, reading "Carlito P. Caliboso".

Carlito P. Caliboso
Chairman

CPC:CPA

Attachment

¹If the Commission is unable to complete its examination of the witnesses on Friday, September 16, 2005, the Commission intends to continue its questioning on Monday, September 19, 2005 after Hawaiian Electric Company, Inc.'s presentation of "probable entitlement."

Parties

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Questions for Hearing

The Commission requests that witnesses answer these questions in their opening witness summaries. The parties should not infer any Commission position from these questions. Questions designated for the CA can be addressed by the DoD witness also.

I. Adequacy of Supply

In this case, Hawaiian Electric Company, Inc. ("HECO") discussed its concerns about capacity shortfalls. HECO mentions these concerns in its Adequacy of Supply report of March 2004, in an update letter of March 2005, and in the testimony of Mr. Sakuda.

(HECO witness – Alm, Sakuda, Hazama, Young, Hee)

- A. Was HECO surprised to discover these shortfalls?
- B. Please explain why HECO did not discover the capacity shortfalls sooner?
- C. Has HECO made any changes to its forecasting or monitoring processes to discover capacity issues earlier?
- D. How successful are HECO's existing efforts to reduce demand?
- E. Are there any conflicting signals within the company -- situations where some policies push to increase sales so as to increase revenues, with others pushing to reduce demand to avoid shortfalls?
- F. Are any of the settlement numbers higher than they would have been had HECO anticipated the capacity shortfall sooner?

(Consumer Advocate ("CA") – Herz; Department of Defense ("DoD") – Smith)

- G. What are your views on the responses HECO provided to the questions listed above?

II. Production Costs and O&M Expenses

(HECO – Fujinaka, Sakuda, Ching; CA – Herz; and DoD – Smith)

- A. Are there differences between the production simulation models used by HECO and by the CA's witness? What are those differences and what are their significance?

- a. Will any programs or services be reduced or cut?
 - b. In what order will these programs or services be reduced or cut?
2. Employee overtime; and
3. Employee morale

V. Rate Design

(HECO – Alm, Young; CA – Brosh; DoD – Brubaker)

- A. There was a disagreement in cost allocation methodology between CA and HECO. HECO's methodology shows large differences in the rate of return earned from each class. CA argues that if its cost allocation methods are adopted, the interclass differences are much smaller. Have the parties changed each other's minds at all on the proper methodology?
- B. Assuming HECO's methodology was correct: how far does the settlement move the classes toward equality in rate of return?
- C. Do the parties have any particular goal in mind as to a gradual equalizing of rate of return among the classes?
- D. HECO has expressed concern that an excess RoR imposed on the large user classes will make it less certain that HECO can recover its full revenue requirement. How seriously do these concerns remain under this settlement?
- E. Please prepare a schedule (e.g., HECO-R-2201) using the allocation agreed upon by the parties to compare HECO's methodology with the CA's methodology. Such schedule should demonstrate the effect at present and proposed rates.

VI. Undergrounding Policy

(HECO – Alm, Nagata)

- A. What specific amount of cost-sharing underground conversion projects is requested to be included in rate base?
- B. What is the revenue requirement associated with this amount?
- C. Does HECO-1805 identify all of the specific projects to which HECO contributed to the cost-sharing of underground costs?

- D. What PUC decisions support these specific projects?
- E. What is HECO's present understanding of the policy concerning cost responsibility for undergrounding?
- F. What is the history of costs associated with undergrounding, i.e., annual costs each year for the past 10 years?
- G. Are there any factors causing a trend in undergrounding costs, up or down?
- H. Is the cost level requested for this test year representative or not representative of undergrounding projects?
- I. HECO stated at HECO-T-18 that new distribution systems will be installed underground when the customer/developer makes a contribution of the estimated difference in cost between an underground system and an equivalent overhead system, unless HECO proposes to install an underground system for engineering and operating reasons.

Please provide examples of engineering and operating reasons for installing an underground system as opposed to an overhead system.

- J. HECO's Policy on Underground Lines provides that HECO will convert existing overhead lines to underground lines as part of an eligible community or government-initiated project to underground HECO's distribution and service lines (25kV and below). HECO indicates it will contribute at 100% its cost the planning, design, material procurement and construction of the electrical work (e.g., cable installation, transformers, terminations, etc).

What constitutes an eligible community or government-initiated project?

How do the costs under the proposed policy (contribution of 100% of the cost for planning, design, material procurement and construction of the electrical work) compare to cost that HECO would incur under Rule 13 D.4?

VII. ECAC

(HECO – Alm)

- A. HECO has expressed concerns about potential generation shortfalls in the near future and the potential impacts on the system's generating efficiency, operations and maintenance. The Commission will set various expense levels in this proceeding during a period of fairly high and volatile fuel prices.

Considering these factors and the potential impact on the revenues of the company, the Commission is considering whether to review periodically the

related operating parameters (e.g., generating efficiency, maintenance expenditures, fuel expenditures, etc.), as well as the various service reliability factors and the effectiveness of the Energy Cost Adjustment Clause ("ECAC"). What are appropriate methods for reporting and monitoring ECAC results to assure that the company's fuel acquisitions are optimal.

- B. One reason to increase purchases of renewable energy is to reduce price volatility associated with reliance on a small number of fuel sources. If ECAC allows the utility to recover all fuel costs, then the utility has a diminished incentive to reduce volatility through diversifying its fuel sources.
1. Do you agree or disagree with the foregoing statement?
 2. If the Commission decides to continue ECAC, what adjustments might the Commission make, in a subsequent proceeding, to increase the utility's incentive to diversify its fuel sources?

VIII. Interest Synchronization

(Parties, please address these questions in your written briefs filed on this issue)

HECO did not specifically explain why interest synchronization is wrong; and why its approach is correct. It only referred to prior Commission decisions. Similarly, CA and DoD did not discuss why HECO's approach was wrong; they only said that other jurisdictions use interest synchronization.

What are the precise reasons why one approach is correct and the other approach is incorrect?